Granate SCI* Flexible Fund Class B

Collective Investment Scheme Minimum Disclosure Document (MDD)

As of 30/09/2021

GRANATE ASSET MANAGEMENT

MDD Issue Date: **21/10/2021**

Fund objective and strategy

The fund aims to deliver long-term capital growth of at least CPI + 6%, measured over rolling seven-year periods. While it seeks to limit downside risk over the medium to long term, investors should be able to withstand short-term volatility. The fund invests in a range of markets and asset classes, including a flexible combination of investments in local and foreign equities (shares), listed property, fixed income and cash. It may at any given time hold between 0% and 100% exposure to any of these asset classes.

Within legal limits, it may also invest in listed and unlisted derivatives (but may only invest in forward currency agreements and interest rate and exchange rate swaps for efficient portfolio management) as well as in other collective investment schemes (unit trusts). If these collective investment schemes are outside of South Africa, the regulatory environment must offer investors at least equal protection to that in South Africa.

Fund information

Ticker	GSFFB
Portfolio managers	Henno Vermaak & Paul Bosman
ASISA fund classification	South African - Multi Asset - Flexible
Risk profile	High
Benchmark	CPI + 6%
Fund size	R 117,234,475
Portfolio launch date	03/02/2020
Fee class launch date	03/02/2020
Minimum lump sum investment	R 10,000
Minimum monthly investment	R 500
Income declaration dates	June & December
Income pricing date	1st business day of the following month
Portfolio valuation time	15:00
Transaction cut-off time	15:00
Daily price information	Local media & www.sanlamunittrusts.co.za
Repurchase period	2-3 business days

Fees are including 15% VAT	**B Class (%)**
Maximum initial advice fee**	3.45
Maximum annual advice fee**	1.15
Manager annual fee	0.98
Total expense ratio (TER)	1.32
Transaction cost (TC)	0.63
Total investment charge (TIC)	1.95
TER measurement period	03 February 2020 - 30 June 2021

The TER shows the percentage of the fund incurred as administration expenses. A higher TER does not necessarily imply a poor return, and a low TER does not necessarily imply a good return. The current TER is also not necessarily an accurate indication of future TERs.

The TC shows the percentage of the fund incurred as expenses related to buying and selling the assets it holds. These expenses are necessary costs in administering the fund. The TC impacts fund returns but should not be considered in isolation, as there are many other factors that impact returns. These include the type of fund invested in, the investment decisions of the investment manager and the TER.

The TIC (TER + TC) measures the total cost to the investor of investing in this fund. It shows the total percentage of the fund incurred as costs.

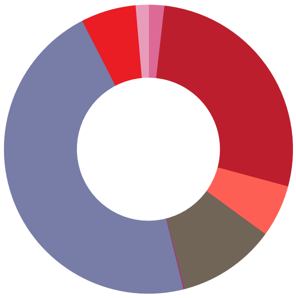
***SCI is an abbreviation for Sanlam Collective Investments.**

****Granate does not provide financial advice. Advice fees are agreed between the investor and financial adviser.**

Top ten equity holdings	**% of portfolio**
Portfolio Date	**30/09/2021**
Capitec Bank Holdings Limited	4.45
Nedbank Group Limited	4.20
Raubex Group	4.12
Afrimat Limited	4.09
Hudaco Industries Limited	3.86
British American Tobacco Plc	3.86
Kaap Agri Ltd	3.85
Mr Price Group Limited	3.75
Exor NV	3.45
Micron Technology Inc	3.19

Asset allocation

Portfolio Date: 30/09/2021



	%
Foreign Cash and Money Market	1.82
Foreign equity	27.38
Local bonds: CPI	5.84
Local bonds: Fixed	10.97
Local cash and money market	0.15
Local equity	46.31
Local property	6.16
Local: Fixed income unit trust	1.37
Total	**100.00**

Annualised performance (%)

	Fund	Benchmark
1 Year	37.38	10.97
3 years	—	—
5 years	—	—
Since Inception	20.32	10.49

Cumulative performance (%)

	Fund	Benchmark
1 Year	37.38	10.97
3 years	—	—
5 years	—	—
Since Inception	35.86	17.96

Highest and lowest calendar-year returns

Time Period: Since Inception to 31/12/2020

Highest annual %	—
Lowest annual %	—

Distribution history (cents per unit)

30/06/2021	27.96 cpu	31/03/2020	4.73 cpu
31/12/2020	5.48 cpu	—	—
30/06/2020	6.85 cpu	—	—

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Risk profile: High

This fund is suitable for individuals who are investing for the long term and are seeking capital growth. It could be significantly invested in shares, which can result in volatility. Investors in this fund should therefore be able to take on a higher level of risk and potential short-term volatility, in exchange for higher potential returns over periods of seven years and longer.

Glossary terms

Annualised returns
Annualised returns show the compound annual growth rate on a total return basis. Total return assumes that distributions are reinvested in the fund.

Asset allocation
Asset allocation is the percentage the fund holds in different asset classes. It is used to determine the level of diversification in the fund.

Capital fluctuations (Volatility)
Volatility refers to the extent to which the price of an investment or capital value fluctuates over a certain time period. High-volatility funds usually offer the potential for higher long-term returns than low-volatility funds.

Collective Investment Schemes
Collective Investment Schemes (also called unit trusts) are portfolios of assets such as equities, bonds, cash and listed property in which investors can buy units. This allows private investors to pool their money into a single fund, which spreads their risk across a range of investments, gives them the benefit of professional fund management and reduces their costs.

Cumulative returns
Cumulative return is the total return an investor would have achieved if they reinvested all distributions.

Derivatives
Derivatives are instruments generally used to protect against risk (capital losses). However, they can also be used for speculative purposes. Examples include futures, options and swaps.

Distributions
Distributions show the income that is generated from an investment and paid out to investors. These pay-outs can be monthly, quarterly, bi-annually or annually.

Diversification
Diversification is a strategy designed to reduce risk and protect against capital losses in a portfolio. It works by combining a variety of asset classes or investments that are unlikely to all move in the same direction at the same time. This allows for more consistent performance under a wide range of economic conditions, as it smooths out the impact of negative market events. The positive performance of some investments or asset classes should neutralise the negative performance of others.

Fund strategy
The fund strategy is how it is managed to achieve its objective.

Participatory interests
When you buy a unit trust, your money is pooled with that of many other investors. The total value of this pool is split into equal portions called participatory interests or units. You therefore buy participatory interests in that unit trust equal to the value of your monetary contribution.

Additional information

All reasonable steps have been taken to ensure the information on this MDD is accurate. The information does not constitute financial advice as contemplated in terms of the Financial Advisory and Intermediary Services Act. Use or rely on this information at your own risk. Independent professional financial advice should always be sought before making an investment decision. The Sanlam Group is a full member of the Association for Savings and Investment SA. Collective investment schemes are generally medium- to long-term investments. Please note that past performances are not necessarily a guide to future performances, and that the value of investments / units / unit trusts may go down as well as up. A schedule of fees and charges and maximum commissions is available on request from the Manager, Sanlam Collective Investments (RF) Pty Ltd, a registered and approved Manager in Collective Investment Schemes in Securities. Additional information of the proposed investment, including brochures, application forms and annual or quarterly reports, can be obtained on request from the Manager, free of charge. Collective investments are traded at ruling prices and can engage in borrowing and scrip lending. Collective investments are calculated on a net asset value (NAV) basis, which is the total market value of all assets in the portfolio including any income accruals and less any deductible expenses such as audit fees, brokerage and service fees. Actual investment performance of the portfolio and the investor will differ depending on the initial fees applicable, the actual investment date, and the date of reinvestment of income as well as dividend withholding tax. Forward pricing is used. The Manager does not provide any guarantee either with respect to the capital or the return of a portfolio. The performance of the portfolio depends on the underlying assets and variable market factors. Performance is based on NAV-to-NAV calculations with income reinvestments done on the ex-div date. Lump sum investment performances are quoted. The yield is calculated as the latest distribution divided by the average 3-month unit price, annualised. The portfolio may invest in participatory interests of other unit trust portfolios. These underlying funds levy their own fees, and may result in a higher fee structure for our portfolio. All the portfolio options presented are approved collective investment schemes in terms of Collective Investment Schemes Control Act, No 45 of 2002 ("CISCA"). The Manager may borrow up to 10% the market value of the portfolio to bridge insufficient liquidity. The fund may from time to time invest in foreign countries and therefore it may have risks regarding liquidity, the repatriation of funds, political and macroeconomic situations, foreign exchange, tax, settlement, and the availability of information. Investments in foreign instruments are also subject to fluctuations in exchange rates which may cause the value of the fund to go up or down. The fund may invest in financial instruments (derivatives) for efficient portfolio management purposes. The Manager has the right to close any portfolios to new investors to manage them more efficiently in accordance with their mandates. Excessive withdrawals from the portfolio may place the portfolio under liquidity pressures and in such circumstances a process of ring-fencing of withdrawal instructions and managed pay-outs over time may be followed. Management of the portfolio is outsourced to Granate Asset Management (Pty) Ltd, (FSP) Licence No. 46189, an Authorised Financial Services Provider under the Financial Advisory and Intermediary Services Act, 2002. Sanlam Collective Investments (RF) (Pty) Ltd retains full legal responsibility for the co-named portfolio. Standard Bank of South Africa Ltd is the appointed trustee of the Sanlam Collective Investments scheme. Sources of Performance and Risk Data: Morningstar Direct, INET BFA and Bloomberg. The risk-free asset assumed for the calculation of Sharpe ratios: STEFI Composite Index. The highest and lowest 12-month returns are based on a calendar year period over 10 years or since inception where the performance history does not exist for 10 years. Obtain a personalised cost estimate before investing by visiting www.sanlamunittrustsmdd.co.za and using our Effective Annual Cost (EAC) calculator. Alternatively, contact us at 0860 100 266.

Investment manager information
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Note: Fund commentaries are updated quarterly.

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Granate SCI Flexible Fund - Commentary

Portfolio manager quarterly comment – 30/09/2021

Why inflation-linked bonds don't always beat inflation – and why we believe they're currently attractive.

Inflation affects us all, both as savers and investors. Ultimately, we're trying to preserve the real purchasing power of our savings into retirement. Now consider that inflation-linked bonds (ILBs) are the only asset class to offer long-term protection against inflation. Not only is the redemption value of an ILB continually adjusted to account for inflation, but its yield (interest rate) – which is set as a percentage of this value – is specified in real (above-inflation) terms (e.g. inflation +2%). Does it not then make sense to utilise this asset class to the full extent in an income fund, where protecting against inflation is an absolute priority? Or as a diversified source of return in a multi-asset fund, which generally targets inflation-plus outcomes?

Well, it turns out that there's more to consider than the return stated on the tin. In fact, it may surprise you to hear that ILBs have *underperformed* inflation for the past six years. This is because the real yields offered by ILBs change over time, and if yields rise – as they have over this period – bond prices fall.

Current ILB yields are very attractive

As indicated by the grey line in Figure 1, 10-year ILBs are currently offering a real yield of 3.64% – up from a yield of under 1% at the end of 2012. In addition to this high real yield and inherent inflation protection if held to maturity, government ILBs are also risk free if you believe the government can print money to repay its debt.

Why are these yields so high, and what is the risk that they continue to rise and further detract from ILB prices? We believe that a significant amount of this risk is already priced in.

Also shown in Figure 1 are real economic growth (real GDP) and inflation (CPI) in South Africa since 2007. Over the longer term, there should be a close link between economic growth and real yields, as the real return earned on assets should decline when the economy slows down and interest rates fall (or conversely improve when the economy grows and interest rates rise). However, this has not been the case in recent years. In contrast to rising real ILB yields, real GDP has been declining, with the gap between the two recently reaching extreme levels.

Interest rates have also declined to all-time lows. As shown in Figure 2, local real repo rates (indicated by the red line) have recently become negative due to the South African Reserve Bank (SARB) cutting interest rates by 300 basis points during the COVID crisis. In fact, the gap between the 10-year real yield and 10-year real repo is at all-time highs.

This anomaly points to a dislocation between the real return on assets in the government sector and the real cost of capital in the private sector, more commonly known as the 'crowding out effect'. Weak economic growth and fiscal deterioration due to rising debt levels have increased the cost of financing in the government sector, while economic and investment activity in the private sector remains subdued and corporate credit remains scarce.

Longer-term gains are possible if market anomalies abate

A negative real policy rate is a sign of very loose monetary policy. Given that the SARB and other central banks globally have started to remove their extraordinary monetary support as economies recover from their lockdown-induced recessions, investors have started to price in rate hikes in the years ahead. This process is likely incomplete, and real rates may increase further.

While this unfolds, the repricing of real yields as a result of policy rate increases may dominate shorter-term returns. However, if we look over the longer term, we know that a real yield of 3.6% offered by a 10-year ILB is very attractive relative to the long-term average. Although we don't know when real yields will revert to fair value, we know that even a small decline in this yield will have a very positive impact on ILB prices, and therefore on overall returns.

At current levels, ILBs are likely to be valuable portfolio additions

We have been including more inflation protection in our funds for a while now. Inflation rates reached all-time lows during the COVID crisis and have started to accelerate. As the economy recovers and if the reform programmes set out for various industry sectors start to take shape, GDP growth should also accelerate. This could mean that the gap between real yields and real economic growth starts to close, as fiscal concerns abate. Even if it doesn't, earning a yield of 3.6% above inflation on a risk-free government bond for the next 10 years is certainly a decent return for any income fund, and a solid contributor in a multi-asset mandate. On a balance of probabilities, it is also likely to beat most private sector asset alternatives in the bond space.

Portfolio managers
Henno Vermaak
Henno joined Granate in July 2019 as an Executive Director and Investment Professional. He founded Capensis Capital (now a subsidiary of Granate) in 2016. Prior to this, he was a portfolio manager at PSG Asset Management, where he was responsible for the PSG Global Flexible and PSG Global Equity funds. Henno is a qualified actuary and CFA Charterholder, and holds a BCom Honours degree from the University of Stellenbosch.

Paul Bosman
Paul joined Granate Asset Management in July 2019 as an Executive Director and Investment Professional. Prior to this he was a portfolio manager at PSG Asset Management, where he was responsible for the PSG Stable and PSG Balanced Funds. Before being appointed portfolio manager, he served as an equity analyst in various subsidiaries of the PSG Group. Paul is a CFA Charterholder and holds a BCom Honours degree from the University of Stellenbosch.